### Medical Devices: Marketing Your Skills and Ideas

Dennis Falkenstein

September 15, 2009

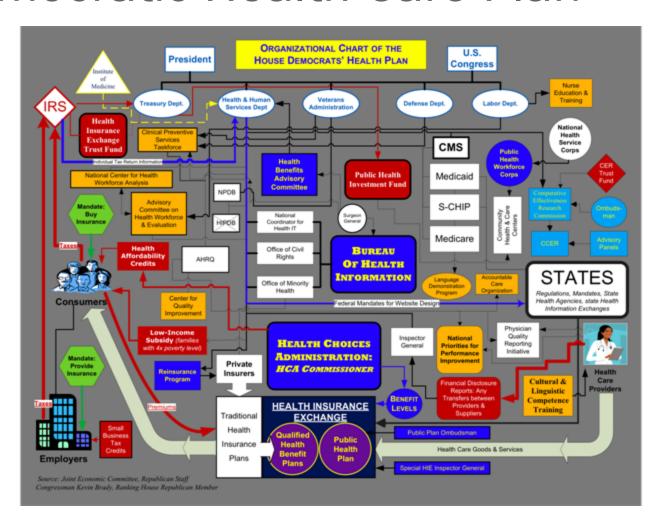
#### Outline

- Short History of Medical Innovations
- Medical Business or Information Business?
- Cost Containment as a Driver
- You Have an Innovative Device, Now What?
- Market Plan to Business Plan
- Medical Market Specifics

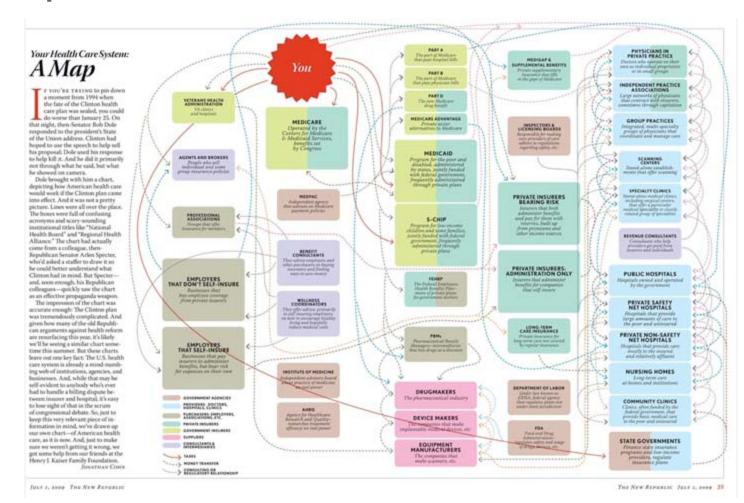
#### What this lecture is NOT

- Town Hall Meeting to promote National Health Care
- Tea Party in opposition to National Health Care

#### Democratic Health Care Plan



# Republican Alternative



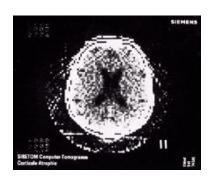
# The Real Medical Tea Party 1846

# Ether and the Beginnings of Exploratory Surgery 1846



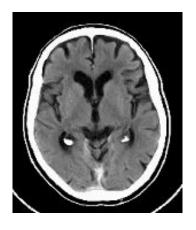
# 1972 CT Scan 1979 Nobel Laureat to Hounsfield, EMI



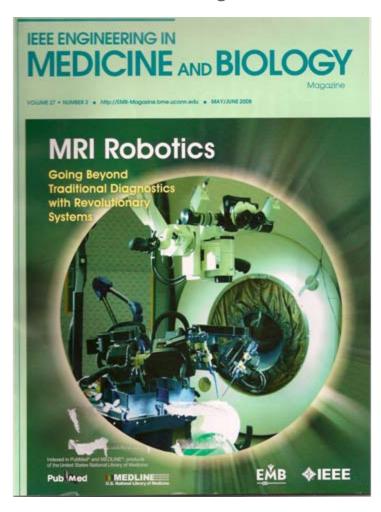




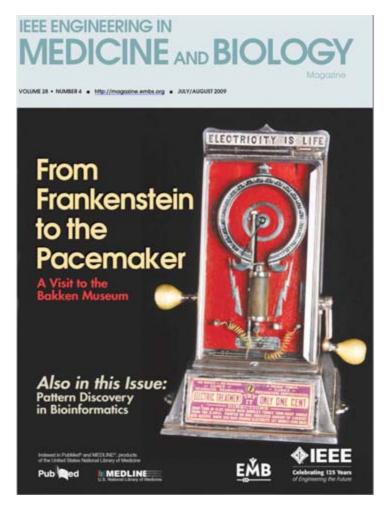
I'm Looking Through You



# Plethora of ancillary devices



# EMB July August 2009



## The bionic contact lens



# Innovations in Imaging

#### Reprinted from THE WALL STREET JOURNAL.

THURSDAY, AUGUST 15, 2002

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Images courtesy of Given Imaging Li

#### To Avoid Surgery, Eat This Camera

More Doctors Get Inside View Of the Body With Video Pill; Close-Ups of a Tumor Site

By MARILYN CHASE

RISTEN PARSKE WAS
TIRED of not knowing
what was wrong with her.
The 33-year-old homemaker was dangerously
anemic from internal bleeding and had
undergone a colonoscopy, barium.Xrays and six other uncomf

or even surgery to figure out what is wrong. The problems that can strike include ulcers, tumors, leaky vessels and inflammatory conditions like Crohn's disease and irritable bowel syndrome. But the upper intestine is hard to see with conventional imaging tools. "The 22 feet between the stornach and colon has been a black box," says Gavriel Meron, chief executive of Given Imaging Inc., the Yoqueam, Israel, company that makes the technology.

The tiny disposable camera | pl tic shell, knowr in 24 states, 17 of those with Medicare coverage, plus Washington, D.C., Puerto Rico and the U.S. Virgin Islands.

Because it is new, the video pill is mostly used after conventional tests have f Ged shim a ki computer of the conventional convention of the conventional conven

Capsule endoscopy is "an amazing technology," says Ms. Parske's surgeon, Gregg Jossart. He sees a number of patients like Ms. Parske for whom "it will mean quicker diagnosis and cure."

Ms. Parske swallowed the smooth plastic capsule, which is like an oversize vitamin, and donned a thick Velcro belt loaded with a battery pack and a Walkman-size recording device. Electronic leads were attached to her torso. Over the next eight hours, she was free to stroll, eat or drink as the device meandered through her body, taking 60,000 flash pictures—two per second—and transmitting the pictures to the recording device. The single-use capsule passed out painlessly after 24 hours.

Then she returned the gear she had worn to her hospital, California Pacific Medical Center in San Francisco, where gastroenterologist Kenneth Binmoeller and nurse Martie Mattson loaded the data recorder onto a workstation.

#### 'Fantastic Voyage'

On the screen, views of her body's interior unfolded like scenes from the 1966 sci-fi film "Fantastic Voyage," where doctors explore the body in a tiny unbrastine. Her intertine a walding

submarine. Her intestine, a pulsing walled tunnel, was marbled with wels resembling the canals on Mars. here," said Ms. Mattson while re-

g the video, freezing a frame.

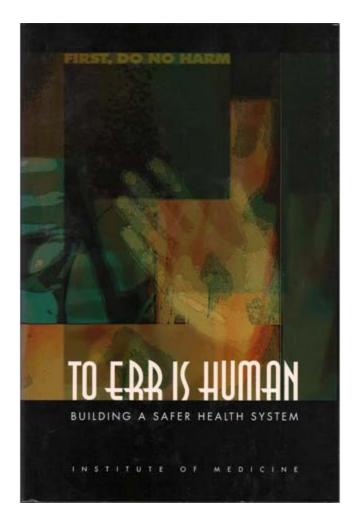
# Knowledge for decision assistance

- Early work in area of EKG analysis by computer
- Cardiac ejection fraction calculations
- Mammography reading assistance
- Care Flow
- Contraindications of drugs

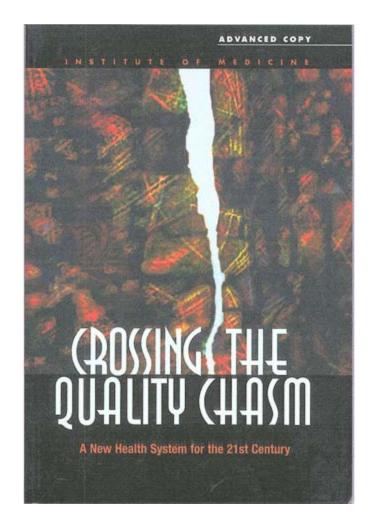
# Medical business is really information, or...

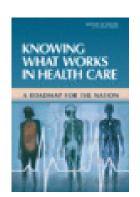


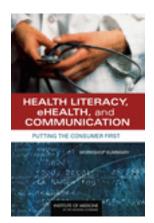
### Institute of Medicine 2001



### **IOM** Resources







# **Short History**

- Non Invasive Diagnosis and Treatment
  - X-ray imaging, CT scanner, MRI, pharmaceuticals
- Cellular imaging or DNA indicators
- ATM laboratory
- Or?

# The Future Clinical Lab?



#### The Business Plan

- Essential element of any business
- Necessary for raising capital
- Necessary to determine direction of company; mission, vission
- Reference of measure of progress
- Points to alternative directions (Plan B)

### Elements of a Business Plan

- Description of company and product/service offering
- Market Plan
- Revenue projections
- Operation expenses
- Results/Profits/Milestones
- Management team
- Supporting Documents

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# Market plan

- Answers the feasibility of business
- Based on market needs/wants
- Product value
- Market size
- Reimbursement issues
- Regulatory issues
- Market sustainability
- Distribution/sales channel
- Competition
- Replacement technology
- Risks, SWAT, PEST

# Specifics of medical market

- Well defined customer universe
- Well defined usage requirements
- Price determined by LCA (Lowest Cost Alternative)
- Regulatory compliance
  - Most medical devices require FDA review (clearance or approval)
  - HIPAA requirements; Health Insurance Portability and Accountability Act
  - Sarbanes-Oxley; SOX

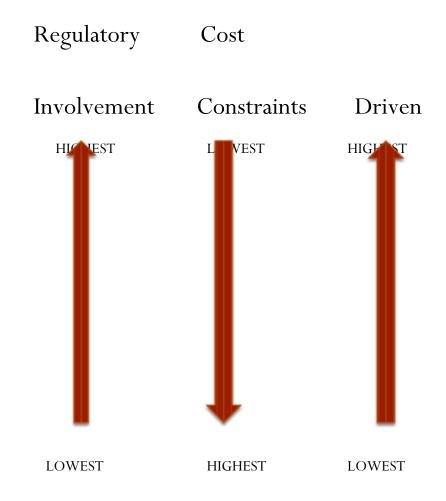
# Various medical engagements

- Medical device to end user
- Accessories to medical device
- Software for medical device or application
- Subsystems for medical device
- Components of medical device

# Complexity varies with various engagements

Reimbursement

- Medical device to end user
- Accessories to medical device
- Software for medical device
- Subsystems for medical device
- Components of medical device



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- Well defined customer universe
  - Hospitals
  - Clinics
  - Private physicians
  - Nursing homes
  - Home market

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#### Determinants of device selling price

- Medical market is NOT cost plus
- Need to determine the value of your device and it must be greater than the cost of your product; include all costs; direct and indirect
- Selling price as a function of the value;
  - More patients per unit time
  - Less labor per procedure
  - Less errors per procedure
  - Less complications or morbidity
  - Higher cure rate

# Macro approach

- National incidence numbers on disease
  - Specific segmentation of disease
  - Cure rates, diagnostic specificity and sensitivity
  - Complications
  - Care flow
- Costs for care
- Reimbursement levels

# Specifics of medical market

- Well defined usage requirements
  - Volume data available on many diseases and treatments
  - Government sites, professional societies, patient groups
  - Data can be localized to individual customer catchment areas

# **American Cancer Society**



# Screening Guidelines

#### Screening Guidelines for the Early Detection of Cancer in Average-risk Asymptomatic People

Cancer Site	Population	Test or Procedure	Frequency				
Breast	Women, age 20+	Breast self-examination	Beginning in their early 20s, women should be told about the benefits and limitations of breast self-examination (BSE). The importance of prompt reporting of any new breast symp toms to a health professional should be emphasized. Women who choose to do BSE should receive instruction and have their technique reviewed on the occasion of a periodic health examination. It is acceptable for women to choose not to do BSE or to do BSE irregularly.				
		Clinical breast examination	For women in their 20s and 30s, it is recommended that clinical breast examination (CBE) be part of a periodic health examination, preferably at least every three years. Asymptomatic women aged 40 and over should continue to receive a clinical breast examination as part of a periodic health examination, preferably annually.				
		Mammography	Begin annual mammography at age 40.*				
Colorectal <sup>a</sup>	Men and women, age 50+	Fecal occult blood test (FOBT)* with at least 50% test sensitivity for cancer, or fecal immunochemical test (RT) with at least 50% test sensitivity for cancer, or	Annual, starting at age 50				
		Stool DNA test	Interval uncertain, starting at age 50				
		Flexible sigmoidoscopy, or	Every five years, starting at age 50				
		Fecal occult blood test (FOBT) <sup>1</sup> and flexible sigmoidoscopy, <sup>1</sup> or	Annual FOBT (or or fecal immunochemical test (FIT)) and flexible sigmoidoscopy every five years, starting at age 50 $$				
		Double-contrast barium enema (DCBE), or	Every five years, starting at age 50				
		Colonoscopy	Every 10 years, starting at age 50				
		CT colonography	Every five years, starting at age 50				
Prostate	Men, age 50+	Digital rectal examination (DRI) and prostate-specific antigen test (PSA)	Health care providers should discuss the potential benefits and limitations of prostate cancer early detection testing with men and offer the PSA blood test and the digital rectal examina- tion annually, beginning at age 50, to men who are at average risk of prostate cancer, and who have a life expectancy of at least 10 years. <sup>5</sup>				
Cervix	Women, age 18+	Pap test	Cervical cancer screening should begin approximately three years after a woman begins having vaginal intercourse, but no later than 21 years of age. Screening should be done every year with conventional Pag tests or every two years using liquid-based Pag tests. At or after age 30, women who have had three normal test results in a row may get screened every two to three years with central cytology feither conventional or liquid-based Pag tests alone, or every three years with an HPV DNA test plus cervical cytology. Women 70 years of age and older who have had three or more normal Pag tests and no abnormal Pag tests in the past 10 years and women who have had a total hysterectorry may choose to stop cervical cancer screening.				
Endometrial	Women, at menopause	At the time of menopause, women at average risk should be informed about risks and symptoms of endometrial cancer and strongly encouraged to report any unexpected bleeding or sporting to their physicians.					
Cancer- related checkup	Men and women, age 20+	On the occasion of a periodic health examination, the cancer-related checkup should include examination for cancers of the thysoid, testicles, ovaries, lymph nodes, oral cavity, and skin, as well as health counseling about tobacco, sun exposure, diet and nutrition, risk factors, sexual practices, and environmental and occupational exposures.					

#### American Heart Association





# Statistics

Our guide to current statistics and the supplement to our Heart & Stroke Facts



2009 Update At-A-Glance

# Macro costing

#### Estimated Direct and Indirect Costs (in Billions of Dollars) of CVD and Stroke: United States: 2009

	Heart Diseases*	Coronary Heart Disease	Stroke	Hypertensive Disease	Heart Failure	Total Cardiovascular Disease
Direct costs						
Hospital	\$106.3	\$54.6	\$20.2	\$8.2	\$20.1	\$150.1
Nursing home	\$23.4	\$12.3	\$16.2	\$4.8	\$4.5	\$48.2
Physicians/other professionals	\$23.8	\$13.4	\$3.7	\$13.4	\$2.4	\$46.4
Drugs/other						
Medical durables	\$22.1	\$10.3	\$1.4	\$25.4	\$3.3	\$52.3
Home health care	\$7.4	\$2.2	\$4.4	\$2.4	\$3.4	\$16.8
Total expenditures	\$183.0	\$92.8	\$45.9	\$54.2	\$33.7	\$313.8
Indirect costs	-1-4-01.5-0.1			10000		Table (alaboration)
Lost productivity/morbidity	\$24.0	\$10.6	\$7.0	\$8.4	***	\$39.1
Lost productivity/mortality	\$97.6	\$62.0	\$16.0	\$10.8	\$3.5*	\$122.4
Grand totals	\$304.6	\$165.4	\$68.9	\$73.4	\$37.2	\$475.3

#### The 15 leading causes of death in 2007

- Diseases of heart
- Malignant neoplasms
- Cerebrovascular diseases
- Chronic lower respiratory diseases
- Accidents (unintentional injuries)
- Alzheimer's disease
- Diabetes mellitus
- Influenza and pneumonia
- Nephritis, nephrotic syndrome and nephrosis
- Septicemia
- 11. Intentional self-harm (suicide)
- Chronic liver disease and cirrhosis
- Essential hypertension and hypertensive renal disease
- 14. Parkinson's disease
- Assault (homicide)

Source: Division of Vital Statistics

## Depending on device, sample micro feasibilities need to be done

- Device is highly specialized to specific disease types
- Device is relatively costly
- Need for hospital/clinic/physician to economically justify
- Need to determine size and specialty of hospital

### Typical hospital catchment area



Primary, Secondary, Tertiary

## Hospital view of market

P	opulation Estir	mate of Cases	Suitable	Capture
<ul><li>Primary</li></ul>	3,624,754	16,768	400	100
<ul> <li>Secondary</li> </ul>	5,693,800	26,878	650	80
<ul><li>Tertiary</li></ul>	11,663,544	54,673	1275	20

How much revenue is this?

## Specifics of medical market revenue

- Price (to patient) determined by LCA (Lowest Cost Alternative) for replacement technologies
- Price for technologies with increased medical evidence can charge more. But medical evidence needs to be proved. This can be expensive
- Performing the procedure more precisely is not justification.
- Need to prove better results and/or less complications
- Saving time and eliminating errors may cause hospital to purchase without more reimbursement
- How is reimbursement determined?

## Specifics of medical market

Most medical devices require FDA review

Hold for after reimbursement discussion

FDA Clearance/Approval is needed prior to any reimbursement

#### What's involved in reimbursement process

#### Coverage

Process of getting a service or procedure included in an insurer's package

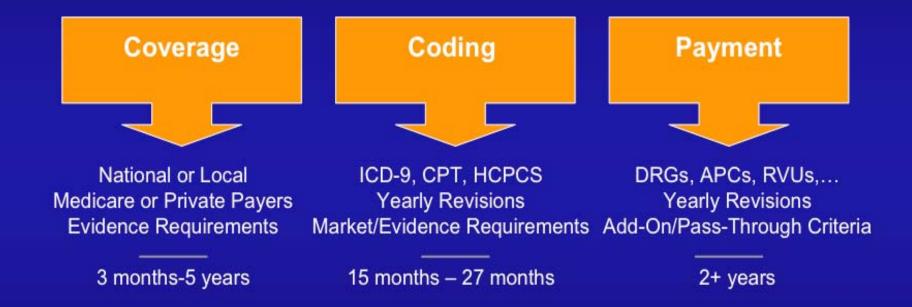
#### Coding

Process of getting a service or a procedure an "identifier" so that it can be priced as a service or bundled with another procedure that is priced

#### Payment

Process by the insurer to set a price for the service or procedure

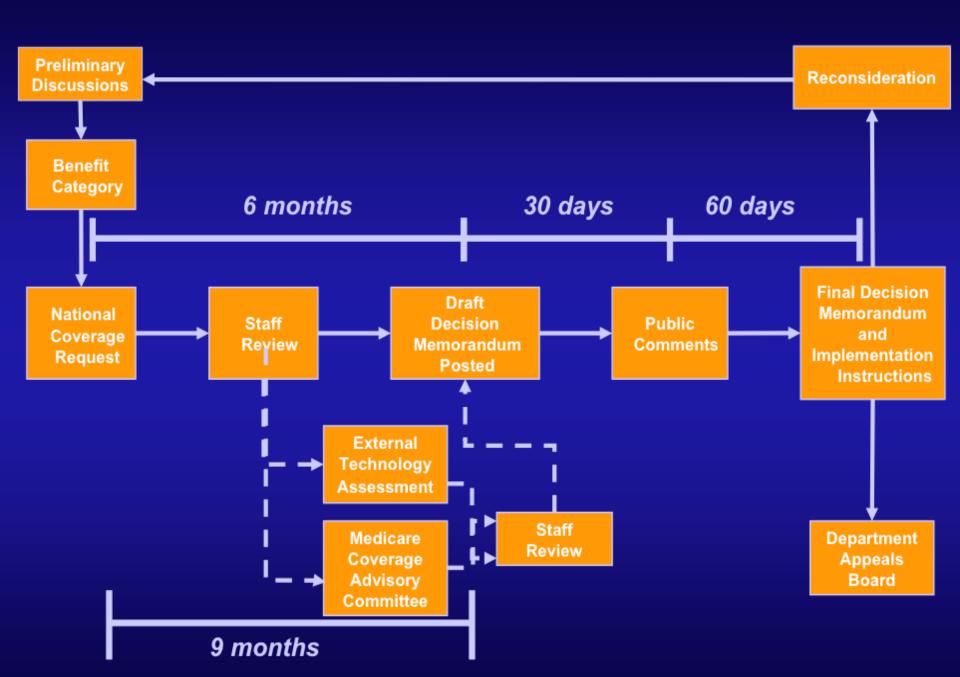
#### Reimbursement Overview



15 months – 5 years

Source: The Lewin Group, 2001

#### Medicare National Coverage Process



## Proton Beam Radiation Therapy Codes

CPT	Description
77520	Proton treatment delivery; simple w/o compensation
77522	Proton treatment delivery; simple w/ compensation
77523	Proton treatment delivery; intermediate
77525	Proton treatment delivery; complex

### Annual Publication of CPT Coding



Tuesday, November 18, 2008

#### Part II

#### Department of Health and Human Services

Centers for Medicare & Medicaid Services

42 CFR Parts 410, 416, and 419
Medicare Program: Changes to the
Hospital Outpatient Prospective Payment
System and CY 2009 Payment Rates;
Changes to the Ambulatory Surgical
Center Payment System and CY 2009
Payment Rates; Hospital Conditions of
Participation: Requirements for Approval
and Re-Approval of Transplants—
To Perform Organ Transplants—
Clarification of Provider and Supplier
Termination Policy Medicare and
Medicaid Programs: Changes to the
Ambulatory Surgical Center Conditions
for Coverage; Final Rule

### **New MAC Jurisdictions**



Source: CMS

## Proton Beam Procedures

СРТ	2007 Medicare Physician Fee Schedule (Free-Standing Facility)			2007 APC Payment (Hospital
	Global Indiana	Global Florida	Global Texas	Outpatient)
77520	-	\$901	\$913	\$1,161.29 (APC 0664)
77522	\$516	\$932	\$945	\$1,161.29 (APC 0664)
77523	\$782	\$968	\$982	\$1,389.37 (APC 0667)
77525	\$782	\$1,108	\$1,096	\$1,389.37 (APC 0667)

# OPPS Payment—CY 2007 - CY 2008 Proton Beam Therapy

CPT Code	CY 2007 APC	CY 2008 APC	Per Cent Change
77520	\$1,161.29 APC 0664	\$816.59 APC 0664	-29.7%
77522			
77523	\$1,389.37 APC 0667	\$977.09 APC 0667	-29.7%
77525			

## Result is a reimbursement schedule from ONE insurer!

#### Medicare

- CMS administers both Medicare & Medicaid
  - The largest single health purchaser in the world
    - FY 2003 total outlays of \$435 billion
    - Responsible for close to 40 cents of every health dollar spent in the US in FY 2002



### Private Insurance Companies

TABLE: Showing Market Concentration of Privately Insured Individuals in the U.S.

Rank		Total	Cumulative	Percent	Cumulative %
		Enrollment <sup>1</sup> (Mil)			
1)	WellPoint	35	35	18.9%	18.9%
2)	UnitedHealth Group	32.9	67.9	17.8%	36.7%
3)	Aetna	17.7	85.6	9.6%	46.2%
4)	Humana	14.8	100.4	8.0%	54.2%
5)	HealthCare Service Corp	12.4	112.8	6.7%	60.9%
6)	Cigna Group	12.0	124.8	6.5%	67.4%
7)	KFHP (Kaiser Foundation)	8.6	133.4	4.6%	72.1%
8)	Highmark	4.8	138.2	2.6%	74.7%
9)	Health Net	3.7	141.9	2.0%	76.7%
	Total of Top Ten Insurance Firms	141.9	141.9	76.7%	76.7%
	Total of All Privately Insured				
	Individuals <sup>2</sup>	185.1		100.0%	100.0%

<sup>&</sup>lt;sup>1</sup> Source: Company filings, public

Foundation

<sup>&</sup>lt;sup>2</sup>Source: "The Uninsured, A Primer", October 2008, Kaiser Family

### The Hospital's Customers (Patients)

Reimbursements		
Payer Mix & Reimbursement Level	Payment as % of Gross Billing	% of Patient Volume
		Gross Billing Amount
Medicare	100%	35.0%
Managed Care	150%	20.0%
Commercial	135%	20.0%
Self Pay	200%	10.0%
Medicaid	100%	10.0%
Charity	0%	4.0%
Other (e.g. Personnel)	100%	1.0%

### Revenue for a particular procedure

Payor	Patient Numbers	Factor based on Medicare	Charge per patient	Total Rev for time period
Medicare	350	100%	\$80.00	\$28,000
Managed Care	200	150%	\$120	\$24,000
Commercial	200	135%	\$108	\$21,600
Self Pay	100	200%	\$160	\$16,000
Medicaid	100	100%	\$80	\$8,000
Charity	40	0%	\$0	\$0
Other (e.g. Personnel)	10	100%	\$80	\$800

Average Revenue per patient=\$ 98,400/1,000 = \$98.40

### July/August 2009 Cancer Journal

#### REVIEW ARTICLE

#### Proton Beam Therapy and the Convoluted Pathway to Incorporating Emerging Technology into Routine Medical Care in the United States

Michael L. Steinberg, MD,\* and Andre Konski, MD, MBA†

Abstract: The pathway that emerging medical technologies take to incorporation into routine medical care in the United States is a product of the social, economic, and political milieu. Our review explores how this milieu brought the incorporation of proton beam therapy into the healthcare delivery system to its current point. We look at how new technologies are presently accepted into this system and discuss the emerging trends—such as the use of evidence-based assessment of technology, coverage with evidence policies, and comparative effectiveness analysis—that are affecting proton beam therapy's effort to finds its place in the pantheon of available medical treatments for patients with cancer.

Key Words: technology assessment, biomedical, proton beam therapy, emerging medical technology, evidence-based medicine

(Cancer J 2009;15: 000-000)

One of the most contentious and controversial issues for health policy decision makers, medical providers, and the healthcare technology industry in the United States is the pathway for incorporating new and emerging medical technologies into the healthcare delivery system. And one of the medical technologies that has

economic, and political milieu brought the issue of the incorporation of PBT into the healthcare delivery system to this point. We look at how new technologies are currently accepted into this system and discuss emerging trends—such as the use of evidence-based assessment of technology, coverage with evidence policies, and comparative effectiveness analysis—affecting PBT's effort to finds its place in the pantheon of available medical treatments for patients with cancer.

#### THE CURRENT HEALTH POLICY CONTEXT

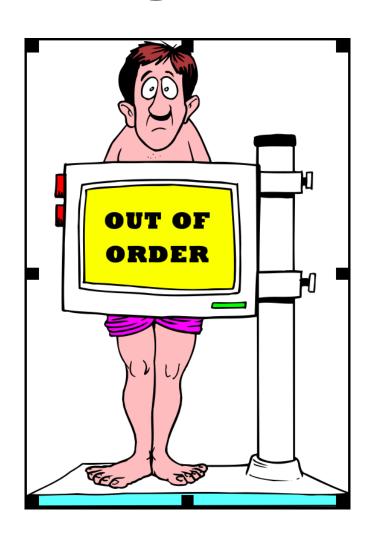
Serious challenges face the United States healthcare delivery system, including the fact that despite ever-increasing healthcare costs, the United States has not yet been able to achieve health outcomes as good as or as high value as those of other industrialized countries. Moreover, this confounding situation continues while the number of medically uninsured in the United States grows. To date, most health policy experts agree that the United States has not coherently embraced policies and processes to simultaneously enhance value and address cost.

The drivers of the rising cost of U.S. healthcare are often portrayed as fraud and abuse, bureaucratic inefficiencies, and inadequate free market influences in the business of healthcare delivery.

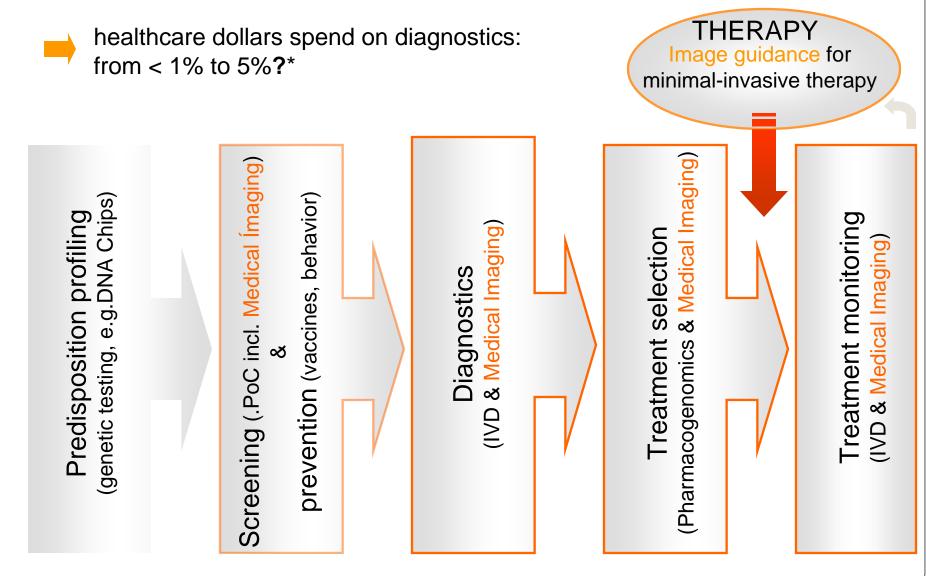
# What are the important drivers to gain acceptance/reimbursement?

- FDA Clearance/Approval
- Lower diagnostic or treatment cost
- Evidence based results
- Reduce complications
- Reduce hospital stay
- Increase throughput
- Reduce return admissions
- Help an existing company enter market or increase share

## Move to integrated approach



## Medical Imaging in the Age of Theranostics & Pharmacogenomics



#### Drive on to Motivate Hospitals to Prevent Avoidable Readmissions

Category: Laboratory News, Laboratory Pathology

Published: August 19 2009



Rating: 4.0/5 (1 vote cast)

One approach is to bundle payments to hospitals, physicians, labs, and other providers

Momentum is building around a new effort to drive down existing rates of hospital readmissions. Different reimbursement proposals to encourage hospitals and physicians to reduce current readmission rates will likely also change the reimbursement status quo for laboratory testing. For example, bundling Part A and Part B payments may be one approach.

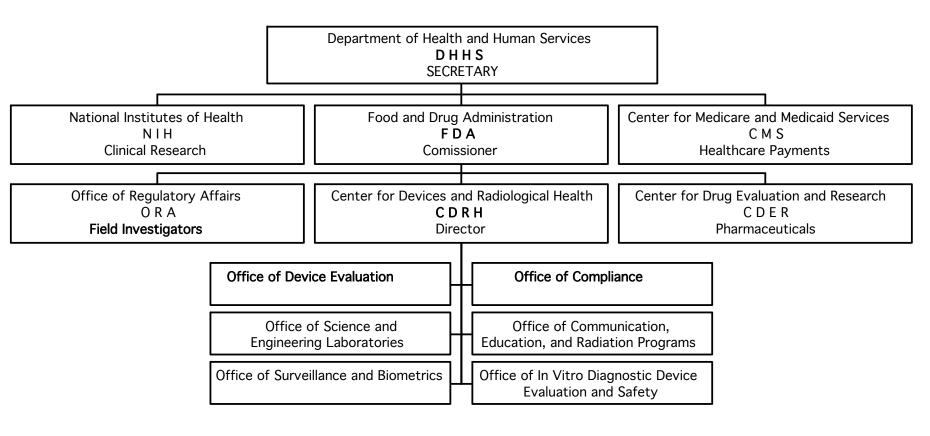
Experts increasingly believe one game changer in lowering healthcare costs and improving outcomes is avoidable hospital readmissions. One in five <a href="Medicare">Medicare</a> patients <a href="returns to the hospital within 30 days">returns to the hospital within 30 days</a>. Overall, readmissions cost Medicare an estimated \$17 billion yearly. Of this total, about \$12 billion are believed to be avoidable cases

### All this in a regulated environment



May 28, 1976, the Medical Device Amendments to the Food, Drug and Cosmetic Act were enacted into Law.

#### **FDA ORGANIZATION**



#### Device Intended for Human Use

Before a device can be used on humans it must have **one** of the following:

- 1. Premarket Notification [510(k)] Clearance from FDA
- 2. Premarket Approval Application (PMA) approved by FDA
- 3. Investigational Device Exemption (IDE) approved by FDA or an Investigational Review Board (IRB)

#### FD&C Act: The LAW

- Prohibition of Adulteration: 501 FD&C Act
- Prohibition of Misbranding: 502 FD&C Act
- Banned devices: 516 FD&C Act
- Notification, and repair, replacement or refund:
   518 FD&C Act
- Records and Reports: 519 FD&C Act
- Restricted Devices: 520 FD&C Act

#### FD&C Act: The LAW

- Establishment Registration & Device Listing: 21 CFR 807
- Premarket Notification [510(k)]: 21 CFR §807.81
- Investigational Device Exemption (IDE): 21 CFR 812
- Quality System Regulation (CGMP): 21 CFR 820
- Labeling: 21 CFR 801
- Medical Device Reporting: 21 CFR 803
- Reports of Corrections and Removals: 21 CFR 806
- Electronic Records; Electronic Signatures: 21 CFR 11
- Device Identification & Classification: 21 CFR 862-892
- RHSA, Electronic Product Radiation: 21 CFR 1000-1050

## 21 CFR Sec. 820.30 Design controls. ...shall establish and maintain procedures...

- (a) General.
- (b) Design and development planning
- (c) Design input.
- (d) Design output.
- (e) Design review.

- (j) Design history file.
- (i) Design changes.
- (h) Design transfer.
- (g) Design validation.
- (f) Design verification.

# Back to the start of the design... Time to review a few key points

- Medical market is robust with room for new innovations
- Medical market requires an understanding of reimbursement
- Medical market is well defined for estimating potential sales
- Evidence based medicine requires a lengthy process
- Regulatory issues are extensive but well documented